

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02 NSAE-00 NSC-05

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CIEP-01 TRSE-00 STR-01 OMB-01 CEA-01 COME-00 FRB-01

XMB-02 OPIC-03 LAB-04 SIL-01 /077 W
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O R 171700Z DEC 74

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 1271

INFO MEMBASSY ANKARA 0123

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5538

E.O. 11652: GDS

TAGS: EGEN PGOV PO

SUBJ: BUSINESS LEADERS ARRESTED

REF: (A) LISBON 4604; (B) LISBON 5266

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1. SUMMARY: PRIME MINISTER'S OFFICE ORDERED ARREST OF 12

WELL KNOWN BUSINESSMEN; ONE IS STILL AT LARGE. ARRESTEES INCLUDE JORGE DE BRITO AND ASSOCIATES, AND DIRECTORS OF TORRALTA GROUP, PORTUGAL'S LARGEST TOURIST ENTERPRISE, WHOSE MANAGEMENT WAS TAKEN OVER LAST WEEK BY GOVERNMENT. THOSE ARRESTED WERE CHARGED WITH "GRAVE ACTS OF ECONOMIC SABOTAGE", WITH SPECIFICS RANGING FROM INABILITY TO MEET OBLIGATIONS TO UNAUTHORIZED FUNDS TRANSFERS AND OTHER QUESTIONABLE DEALINGS. USUALLY RELIABLE SOURCES CLAIM ARRESTS WERE ORDERED BY PRIME MINISTER GONCALVES WITHOUT CONSULTING OR NOTIFYING REST OF GOVERNMENT, WHICH SUGGESTS INCREASING ESTRANGEMENT BETWEEN GONCALVES AND CABINET. SOME THOUGHT MAY HAVE BEEN GIVEN TO OUSTING GONCALVES BUT IT DOES NOT APPEAR POLITICALLY FEASIBLE TO DO SO. END SUMMARY.

2. PRIME MINISTER'S OFFICE EARLY DEC 13 ISSUED ARREST ORDERS FOR TWELVE WELL-KNOWN BUSINESSMEN. ALL BUT ONE IS SPECIFICALLY LINKED WITH ONE OF TWO GROUPS OF PRIVATE COMPANIES IN WHICH GOVERNMENT HAS RECENTLY INTERVENED. ONE IS JORGE DE BRITO GROUP, WHOSE BANCO INTERCONTINENTAL PORTUGUES (BIP) AND CONSTRUCTION COMPANY BRISA HAD THEIR MANAGEMENTS REPLACED IN LATE OCTOBER (REF A). GOVERNMENT RECENTLY ANNOUNCED IT WAS SUING JORGE DE BRITO FOR 2 BILLION ESCUDOS (\$80 MILLION) IN DAMAGES RESULTING FROM MISMANAGEMENT OF BIP.

3. OTHER GROUP IS TORRALTA, PORTUGAL'S LARGEST TOURIST COMGLOMERATE. IT HAD BEEN SUBJECT OF RUMOR FOR SOME WEEKS, NOTABLY THROUGH LIQUIDITY DIFFICULTIES OF ITS CONSTRUCTION SUBSIDIARY "A.C.", WHICH HAS BEEN BUILDING HUGE TROIA RESORT COMMUNITY SOUTH OF SETUBAL. GOVERNMENT FROZE BANK ACCOUNTS OF PRINCIPAL DIRECTORS AND THEN LAST WEEK UNDER AUTHORITY OF NEW "ASSISTANCE" LAW (REF B) ASSUMED MANAGEMENT OF ALL COMPANIES IN GROUP.

4. THOSE ARRESTED INCLUDE JORGE ARTUR REGO DE BRITO, EDUARDO MATOS CASTRO, AONTONIO MANUEL DE SOUSA VIEIRA, AND FERNANDO AUGUSTO PINTO BARBOSA CRUZ, ALL DIRECTORS OF BIP; JOAQUIM JOSE DE PAIVA CORREIA, DIRECTOR OF BOTH BIP AND TORRALTA; AGOSTINHO DA SILVA, ADMIRAL SARMENTO RUDRIQUES, JOAO MACIA DA SILVA DELGADA, AND JOSE DA SILVA, ALL TORRALTA

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DIRECTORS; JOAO CRISOSTOMO DE MORAIS, DIRECTOR OF SOCIEDADE FINANCEIRA; AND FRANCISCO BRAS DE OLIVEIRA, DIRECTOR OF CREDITO PREDIAL. STILL AT LARGE IS JOAO RUIS DE ALMEIDA GARRETT, ALSO A BIP DIRECTOR. (JOAO DE MORAIS OF SICIEDADE FINANCEIRA PORTUGUESA, A CREDIT INSTITUTION WITH MAJORITY OF SHARES HELD BY GOVERNMENT, MAY BE AN UNLUCKY VICTIM--I.E., A FALL GUY FOR TEXEIRA PINTO, THE PRE-REVOLUTIONARY HEAD OF SFP WHO FLED THE COUNTRY SOMETIME AGO AND WHO IS WANTED TO EXPLAIN

ALLEGED MISMANAGEMENT OF SFP. FRANCISCO DE OLIVEIRA CAME BACK FROM PARIS AND TURNED HIMSELF IN--CREDITO PREDIAL WAS FORMERLY OWNED BY THE DE BRITO GROUP).

5. COMMUNIQUE FROM PRIME MINISTER'S OFFICE CONCERNING ARRESTS CITED SECTION OF ARMED FORCES MOVEMENT (AFM) PROGRAM DEALING WITH MEASURES AGAINST "CORRUPTION AND SPECULATION" AND CHARGED ARRESTEES WITH "GRAVE ACTS OF ECONOMIC SABOTAGE". ONLY SPECIFIED CHARGE AGAINST BIP MANAGEMENT WAS UNAUTHORIZED TRANSFER OF \$1.6 MILLION OUT OF COUNTRY. TORRALTA DIRECTORS WERE CHARGED WITH A VARIETY OF OFFENSES: INABILITY TO MEET CURRENT OBLIGATIONS TO EMPLOYEES, SUPPLIERS, AND CONTRACTORS; DELAY IN REIMBURSEMENT OF "VACATION CERTIFICATES" (REALLY A SAVINGS PROGRAM DRAWING VERY HIGH INTEREST) TOTALING \$5.2 MILLION AND \$4 MILLION OF PAYMENTS FOR "OCCUPATION RIGHTS"; RECEIPT OF \$32 MILLION IN ADVANCE PAYMENTS FOR AN INCREASE IN CAPITAL WHICH HAD BEEN NEITHER APPROVED NOR EVEN REQUESTED; UNAUTHORIZED TRANSFERS OF FUNDS TO AND FROM THE COUNTRY; AND "ABNORMAL RELATIONSHIPS" BETWEEN COMPANIES OF THE GROUP AND OTHER COMPANIES, ESPECIALLY IN FINANCIAL FIELD AND IN TRANSFER AND MANAGEMENT OF PROPERTIES.

6. SEVERAL SOURCES DEPLORED ARBITRARY MANNER IN WHICH ARREST ORDER ISSUED. FOREIGN MINISTER MARIO SOARES TOLD NEW YORK TIMES REPORTER THAT PRIME MINISTER VASCO GONCALVES ORDERED ARRESTS WITHOUT CONSULTING OR NOTIFYING ANYONE ELSE. JOAO SALGUEIRO, VICE-GOVERNOR OF BANK OF PORTUGAL AND VERY CLOSE TO GOVERNMENT, CONFIRMED TO EMBOFF THAT MINISTERS WITHOUT PORTFOLIO (AND FM LEADERS) MELO ANTUNES AND VICTOR ALVES, AS WELL AS REST OF CABINET WITH POSSIBLE EXCEPTION OF JUSTICE MINISTER FRANCISCO ZENHA, WERE NEITHER CONSULTED NOR NOTIFIED. CABINET AND AFM ARE APPARENTLY DISMAYED BY SEVERAL OF GONCALVES' RECENT ACTIONS, BUT SEE NO POLITICALLY FEASIBLE WAY OF
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ACHIEVING HIS OUSTER. THEY MAY, HOWEVER, SEEK TO BYPASS AND ISOLATE HIM, ALTHOUGH EVEN THIS WOULD BE DIFFICULT.

7. SALGUEIRO ALSO SAID THAT LEFTIST MOVIMENTO DEMOCRATICO PORTUGUES (MDP) PREPARED COMMUNIQUE LISTING NAMES OF ARRESTEES BEFORE ARREST ORDER ACTUALLY ISSUED. (NOTE: MDP DID DISTRIBUTE COMMUNIQUE ON MORNING OF 13TH, LINKING ARRESTS WITH EVENTS OF APRIL 25 AND SEPTEMBER 28, BUT WITH NO NAMES). ACCORDING TO SALGUEIRO, ORIGINAL LIST PREPARED BY PRIME MINISTER CONTAINED ADDITIONAL NAMES WHICH WERE DELETED BY BRIGADEIRO OTELO SARAIVA DE CARVALHO, DEPUTY COMMANDER OF COPCON, MILITARY ORGANIZATION WHICH MADE ARRESTS. DELETED NAMES REPORTEDLY INCLUDED MEMBERS OF PROMINENT BANKING FAMILY, ESPIRITO SANTO SILVAS.

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INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 1272

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 5538

8. SALGUEIRO DEPLORED FACT THAT PRIME MINISTER'S OFFICE SENT WORD TO MEDIA TO ANNOUNCE THAT PEOPLE ON LIST WERE ATTEMPTING FLIGHT, AND REQUEST PEOPLE'S HELP IN APPREHENDING FUGITIVES, WHEN IN FACT MOST WERE IN THEIR OFFICES. FRANCISCO OLIVEIRA REPORTEDLY EVEN MET WITH VICTOR ALVES ON MORNING OF ARRESTS, AND THEN LEFT ON A PLANNED TRIP TO PARIS WITHOUT EITHER MAN (OR, CONFIDENTIAL

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EVIDENTLY, IMMIGRATION OFFICIALS) KNOWING OF ARREST ORDER. WHEN HE LARNED OF IT, OLIVEIRA RETURNED FROM PARIS AND TURNED HIMSELF IN. ONLY JOAO GARRETT, STILL AT LARGE, APPEARS TO FIT DESCRIPTION OF FUGITIVE.

9. ALSO CRITICIZED BY SALGUEIRO IS PRESS REPORTING OF AFFAIR, IN WHICH ARRESTEES HAVE ALREADY BEEN "TRIED AND CONVICTED". HE WAS VERY CONCERNED ABOUT POSSIBLE EFFECTS ON BUSINESS CONFIDENCE AND ON EMIGRANT REMITTANCES, LATTER HAVING GREAT IMPORTANCE TO PORTUGAL'S BALANCE OF PAYMENTS POSITION.

10. SAMPLING OF BUSINESSMEN IN OPORTO AND LISBON ELICITED VIEWS THAT DE BRITO AND TORRALTA EXECUTIVES HAD BEEN PLAYING LOOSE FOR LONG TIME AND WERE NOW "GETTING WHAT'S COMING TO THEM". DIRECTOR-GENERAL FOR ECONOMIC AFFAIS IN FOREIGN MINISTRY ECHOED THESE RE-ACTIONS BY SAYING MOVE AGAINST THESE INDIVIDUALS "WHO REPRESENT THE WORST ASPECTS OF PORTUGUESE CAPITALISM" WOULD BE GENERALLY WELCOME EVERYWHERE, INCLUDING BUSINESS AND FINANCIAL SECTOR.

11. COMMENT: THE IMPACT ON BUSINESS COMMUNITY SEEMS MUCH LESS IMPORTANT THAT POLITICAL OVERTONES WITHIN GOVERNMENT. WHILE SOME BUSINESSMEN HAVE DECRIED ARBITRARINESS OF ACTION, NONE HAS CHARACTERIZED IT AS THE OPENING OF A GOP CAMPAIGN AGAINST THE PRIVATE SECTOR AS A WHOLE. THE APPARENTLY UNILATERAL ACTION BY THE PRIME MINISTER AND THE REPORTED REACTION SUGGEST INCREASING ESTRANGEMENT BETWEEN GONCALVES AND THE CABINET. EMBASSY WILL FOCUS ON THIS MATTER IN SUBSEQUENT TELEGRAMS.
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